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Revenue
Service

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Taxcalendar

January

Give employees their copies of Form W-2 for 1994 as soon as possible. The due date is January 31. Retired employees should be given their copies of Form 1099-R.

January 3

Stop advance payments of the earned income tax credit for any employee who did not give you a new Form W-5 for 1995.

File Form 730 and pay tax on bets accepted during November.

File Form 2290 and pay heavy vehicle use tax (or first installment) for vehicles first used in November.

January 5

Deposit payroll tax for payments on December 28, 29 and 30.

January 6

Deposit payroll tax for payments on December 31, January 1, 2 and 3.

January 9

Deposit environmental, fuel, luxury, retail and manufacturers tax for the last 16 days of December.

January 11

Deposit payroll tax for payments on January 4, 5 and 6.

January 13

Deposit payroll tax for payments on January 7, 8, 9 and 10.

Deposit gas tax for last 16 days of December, if the 14-day rule applies.

January 17

Deposit payroll tax for payments in December 1994 if the semi weekly rule did not apply.

January 19

Deposit payroll tax for payments on January 11, 12 and 13.

January 20

Deposit payroll tax for payments on January 14, 15, 16 and 17.

January 24

Deposit environmental, fuel, luxury, retail and manufacturers tax for the first 15 days of January.

January 25

Deposit payroll tax for payments on January 18, 19 and 20.

January 27

Deposit payroll tax for payments on January 21, 22, 23 and 24.

Deposit gas tax for first 15 days of January if the 14-day rule applies.

January 31

File Form 945 to report income tax withheld for 1994 on all nonpayroll items.

File Form 941 for the fourth quarter of 1994.

File Form 940 (or 940-EZ) to report any undeposited federal unemployment tax for 1994.

Give annual information statements (Forms 1099) to recipients of certain payments you made during 1994.

File Form 720 for the fourth quarter of 1994.

File Form 730 and pay tax on bets accepted during December.

File Form 2290 and pay heavy vehicle use tax (or first installment) for vehicles first used in December.

For more information on other excise taxes, see Publication 509, "Tax Calendars for 1995" and Publication 510, "Excise Taxes for 1995."



Tax Tips

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A
NEWSLETTER
FOR
NEW BUSINESSES

courtesy of

The Internal Revenue
Service

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IRS Tax Assistance
Telephone Numbers

1-800-829-1040
for general tax assistance

1-800-829-4477
tele-tax
for recorded tax information

1-800-829-3676
for FREE
tax forms and publications

As a business owner you are familiar with tax returns, but an information return? What's that?

Information Returns:

What Are They *and* Who Gets Them?

Information returns provide income and tax information to your employees, certain contractors that you hire, recipients of goods, services, prizes and other fees from your business and, finally, to the Internal Revenue Service.

Information returns provide a benefit not only to you, but also to the recipients and the IRS. They benefit you because they help substantiate deductions you take on your tax return for payments you have made to the recipients.

These returns also benefit the recipients, who otherwise might have trouble determining their income and taxes paid for the year without the information on the returns.

Finally, information returns allow the IRS to match income received with income reported, thus helping to make sure that people pay their fair share of taxes.

If you are an employer, one of the most familiar information returns that you will use is Form W-2, "Wage and Tax Statement." This form tells your employees and the IRS how much income each employee earned during the year. It also tells how much federal income tax and social security and Medicare tax was withheld, plus information about any advance earned income tax credit payments and state and local income tax payments.

For the most part, you must give your employees their annual W-2 no later than January 31 of the

following year. If an employee leaves your company, you may give him or her a Form W-2 any time after leaving but no later than January 31 of the following year.

Form 1099-MISC, "Miscellaneous Income," reports payments to independent contractors hired to provide certain services to your business. These self-employed people may be accountants, public stenographers, carpenters, painters—generally anyone you hire who is not your employee.

Usually you do not have to withhold taxes for these contractors, but you do have to file Form 1099-MISC for anyone who is not incorporated and to whom you pay \$600 or more during the year. On Form 1099-MISC you report how much you paid these people, their names, addresses and taxpayer identification numbers (TINs).

If the person does not give you a correct TIN, any backup withholding you took and forwarded to the IRS would also be reported on the Form 1099-MISC.

(continued on page 2)

Because it isn't always possible to know whether you will pay a contractor \$600 or more during a calendar year, many tax consultants advise their clients to keep records as if they will need to file an information return on each contractor they hire.

To make sure that you have all the information you

need to file required returns at the end of the year, you should get an accurate name, address and TIN from each contractor you deal with, even if the job at hand is a small one. Then you can easily file Form 1099 at the end of the year if all the payments you made to a given contractor reached \$600. 📌

Passive Activities:

“At Risk” Limits Losses

In most business endeavors, losses you incur may be deductible against your other income. But if you are involved in what is known as a “passive activity” the rules are different, with limits on how much you can deduct.

The rules on passive activities were enacted to eliminate unfair tax advantages created by some tax shelters. Some shelters allowed high-income taxpayers to deduct amounts over and above their investments in businesses in which they were not actively involved. The passive activity rules make it much more difficult to claim artificial losses.

To determine which losses you may claim on your return for any one year, you need to identify each of your various business activities

and determine which are “passive” and which are “active.” There are two kinds of passive activities.

Trade or Business: These are activities in which you do not materially participate during the tax year. Consider the kind of relationship you have with the business. Among other things, “passive” may mean you are a relatively minor part of the operation, that you spend less than 100 hours during the year dealing with it, and that other people spend more time running it than you do.

Rentals: Most rental activity is passive activity, no matter how much time you devote to it.

Perhaps the most important limitation on how much business loss you can deduct is imposed by the

“at risk” rule. Under this rule, the most you can ever deduct as a loss is the amount you actually have at risk. Usually, that is the money or property you put into the business, or the amount you personally borrowed for the business if you are personally liable for repayment or pledged your own property as security for the loan.

How much is “at risk” each year? Every year you claim a loss, the amount of that loss is subtracted from the amount you have at risk. If you claim enough losses, the amount at risk may be reduced to zero. At that point, you can no longer deduct the losses.

For more detailed information ask for free IRS Publication 925, Passive Activity and At-Risk Rules. 📌

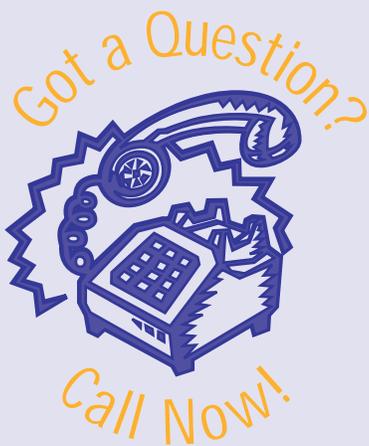
IRS PENALTIES: *Don't Pay More Than You Have To!*

Penalties are used by the IRS to encourage people to obey the tax laws. Below are some of the penalties you should know about.

Failure to File Information Returns: The penalty may be up to \$50 for each return not filed, or filed without the required information. This includes Forms 1099, “Information Returns,” for non-employees’ income, Forms W-2, “Wage and Tax Statements,” for employees, tip reporting information, and other kinds of

information required by the tax law. You may be penalized \$100 for intentionally disregarding filing rules. In general, the maximum penalty is \$250,000 for multiple infractions in a single calendar year.

Failure to Pay: The penalty usually is one-half of one percent a month, or part of a month, to a maximum of 25 percent of the unpaid tax due. If the IRS issues a notice that it is about to levy your property, the penalty may increase to one percent. 📌



The IRS has a computerized telephone system designed to answer your tax questions. It's called Tele-Tax, and it's as close as your own phone. Over 140 easy-to-understand recorded messages covering the most frequently-asked tax questions are available, 24 hours a day, from a touch-tone phone or during business hours from a rotary phone. Tele-Tax can even tell you the status of your refund.

To get in touch with Tele-Tax, call the number for your area, listed in your federal tax package or in your local phone book, or look it up in the free IRS Publication 910, Guide to Free Tax Services. ☺

Health Insurance Premiums Are Tax Deductible

If you paid health insurance premiums for yourself, your spouse, and your dependents, between July 1, 1992, and December 31, 1993, you may be able to file amended returns to claim 25 percent of the amount as a tax deduction. The deduction expired June 30, 1992, but the Omnibus Budget Reconciliation Act of 1993 extended it retroactively.

To claim this deduction, you must be self-employed, be a general partner or a limited partner receiving guaranteed payments in a partnership, or be a shareholder owning more than two percent of the outstanding stock of an S corporation from which you received wages.

You can't deduct more than your net earnings from the trade or business in which the medical plan is established, and if the business is an S corporation, you can't

deduct more than your wages from the corporation. But you can claim the deduction even if your partnership or S corporation paid the premiums, as long as you included the amount in your gross income.

You can't claim the deduction if you were eligible to participate in any subsidized health plan maintained by either your or your spouse's employer.

If you meet all these tests, you can claim the deduction as an adjustment to income (Line 2 on the 1040X, "Amended U.S. Individual Income Tax Return"). Don't forget, though: you must also subtract this amount from your medical health insurance (Line 4 on the 1040X) if you originally itemized your medical deductions on Schedule A.

For more information, call and ask for Publication 535, Business Expenses, which has a worksheet for figuring your deduction. ☺

COMMON REPORTING ERRORS

Errors Common to Paper Form W-2 Reports

- ▶ Prior year tax form used; for example, using a 1993 form for 1994 wages.
- ▶ Unscannable reports. Reports that are not scannable by the Social Security Administration's (SSA) optical equipment cost more to process and are more subject to error.
- ▶ Failure to file copy A of Form W-2 with SSA.
- ▶ Checking the "void" indicator on Form W-2 incorrectly. SSA will not credit wages shown on any Form W-2 that is voided.

Errors Common to Magnetic Media Filers

- ▶ Failing to file Form 6559, "Transmitter Report and Summary of Magnetic Media," with each magnetic media report. Form 6559 or a copy of the form, helps the Social Security Administration (SSA) identify the employer (or transmitter), the type of report and the year being reported. Multi-reel filers should provide a copy of Form 6559 for each reel.
- ▶ Dollar totals ("T" record) omitted on report. SSA uses dollar totals to determine if the report is in balance and, if not, to show where the error may be found and corrected. ☺